

**RURAL WATER DISTRICT NO. 2 DICKINSON COUNTY, KANSAS**

Abilene, Kansas

**FINANCIAL STATEMENTS**

**AND**

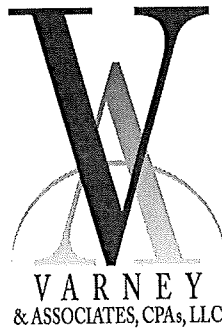
**INDEPENDENT AUDITOR'S REPORT**

December 31, 2018 and 2017

VARNEY & ASSOCIATES, CPAs, LLC  
Manhattan, Kansas

**RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS**  
Abilene, Kansas  
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May 14, 2019

Board of Directors  
Rural Water District No. 2, Dickinson County, Kansas  
Abilene, Kansas

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the business-type activities of Rural Water District No. 2, Dickinson County, Kansas (the District) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the applicable provisions of the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

#### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

# Independent Auditor's Report

May 14, 2019  
Rural Water District No. 2, Dickinson County, Kansas  
(continued)

**Other Matter**

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Vannoy & Associates, CPAs, LLC*

Certified Public Accountants  
Manhattan, Kansas

# *Independent Auditor's Report*

## **FINANCIAL STATEMENTS**

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS  
Abilene, Kansas  
STATEMENTS OF NET POSITION  
December 31,

	2018	2017
<b>ASSETS</b>		
<b>Current Assets</b>		
Checking accounts	\$ 16,264	\$ 10,397
Money market accounts	440,186	362,593
<b>Total cash and cash equivalents</b>	<u>\$ 456,450</u>	<u>\$ 372,990</u>
Accounts receivable - Net	53,115	50,940
Inventory	21,635	26,175
<b>Total Current Assets</b>	<u>\$ 531,200</u>	<u>\$ 450,105</u>
<b>Non-Current Assets</b>		
Capital assets	\$ 6,129,934	\$ 6,118,004
Less: Accumulated depreciation	(3,293,525)	(3,119,096)
<b>Capital Assets - Net</b>	<u>\$ 2,836,409</u>	<u>\$ 2,998,908</u>
Certificate of deposit - Bond Reserve	33,120	32,988
Loan reserve - KDHE	103,772	103,772
<b>Total Non-Current Assets</b>	<u>\$ 2,973,301</u>	<u>\$ 3,135,668</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,504,501</u></u>	<u><u>\$ 3,585,773</u></u>
<b>LIABILITIES AND NET POSITION</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ -	\$ 2,957
Payroll taxes payable	5,362	5,656
Accrued interest payable	8,833	9,229
Other accrued expenses	502	564
Compensated absences	8,656	2,345
Current portion of bond payable	15,000	15,000
Current portion of lease payable	-	4,459
Current portion of loan payable	43,914	42,866
<b>Total Current Liabilities</b>	<u>\$ 82,267</u>	<u>\$ 83,076</u>
<b>Non-Current Liabilities</b>		
Bond payable - Series E 2012 (net of bond discount) - Net of current portion	\$ 302,505	\$ 317,049
Kansas public water supply loan - Net of current portion	868,102	912,015
Capital lease payable - Net of current portion	-	39,838
<b>Total Non-Current Liabilities</b>	<u>\$ 1,170,607</u>	<u>\$ 1,268,902</u>
<b>Total Liabilities</b>	<u>\$ 1,252,874</u>	<u>\$ 1,351,978</u>
<b>Net Position</b>		
Net investment in capital assets	\$ 1,665,802	\$ 1,730,006
Restricted for bond reserve	32,426	32,426
Restricted for loan reserve	103,772	103,772
Unrestricted	449,627	367,591
<b>Total Net Position</b>	<u>\$ 2,251,627</u>	<u>\$ 2,233,795</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 3,504,501</u></u>	<u><u>\$ 3,585,773</u></u>

# Financial Statements

**RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS**  
Abilene, Kansas  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
For the Years Ended December 31,

	2018	2017
<b>OPERATING REVENUES</b>		
Monthly minimum	\$ 367,780	\$ 366,879
Water reserves	291,373	273,623
<b>Total Operating Revenues</b>	<u>\$ 659,153</u>	<u>\$ 640,502</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	\$ 171,560	\$ 163,580
Payroll taxes	13,267	12,627
Employee benefits	10,683	4,429
Repairs and maintenance	98,831	61,939
Utilities	27,124	27,575
Water purchased	95,547	97,865
Office expense	11,684	9,518
Depreciation	174,429	159,265
Rent and lease expense	1,288	423
Insurance	17,377	19,508
Lab expense	1,343	1,064
Clean water fee	1,486	1,337
Misc expense	1,365	981
Professional fees	8,700	8,779
Training	1,865	1,910
<b>Total Operating Expenses</b>	<u>\$ 636,549</u>	<u>\$ 570,800</u>
<b>OPERATING INCOME (LOSS)</b>	<u>\$ 22,604</u>	<u>\$ 69,702</u>
<b>NON-OPERATING REVENUE (EXPENSES)</b>		
Interest income	\$ 3,884	\$ 1,135
Other income	16,621	18,327
Gain/(Loss) on disposal	-	6,900
Interest expense	(32,512)	(26,530)
Other expense	(191)	(259)
Debt service fee	(2,574)	(3,036)
<b>TOTAL NON-OPERATING REVENUES AND EXPENSES</b>	<u>\$ (14,772)</u>	<u>\$ (3,463)</u>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS</b>	<u>\$ 7,832</u>	<u>\$ 66,239</u>
<b>CONTRIBUTIONS</b>		
Capital contributions	10,000	5,000
<b>CHANGE IN NET POSITION</b>	<u>\$ 17,832</u>	<u>\$ 71,239</u>
<b>BEGINNING - NET POSITION</b>	<u>2,233,795</u>	<u>2,162,556</u>
<b>ENDING - NET POSITION</b>	<u><u>\$ 2,251,627</u></u>	<u><u>\$ 2,233,795</u></u>

# Financial Statements

**RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS**  
Abilene, Kansas  
**STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31,

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 656,978	\$ 640,373
Cash paid to suppliers	(289,435)	(257,959)
Cash paid to employees	(165,543)	(163,455)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>\$ 202,000</u>	<u>\$ 218,959</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	<u>\$ 3,883</u>	<u>\$ 1,135</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition and construction of capital assets	\$ (11,929)	\$ (142,966)
Gain (Loss) on disposal of equipment	-	6,900
Proceeds from long-term debt	-	50,240
Principal paid on long-term debt	(101,706)	(62,329)
Other capital activities	16,430	18,068
Change in reserves	(132)	(131)
Interest and services fees paid on long-term debt	(35,086)	(29,566)
Capital contributions	10,000	5,000
<b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>	<u>\$ (122,423)</u>	<u>\$ (154,784)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>\$ 83,460</u>	<u>\$ 65,310</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>372,990</u>	<u>307,680</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u><u>\$ 456,450</u></u>	<u><u>\$ 372,990</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>		
Operating net income	\$ 22,604	\$ 69,702
Adjustments to reconcile operating net income (loss) to net cash provided by (used in) operating activities		
Depreciation	174,428	159,265
Decrease (increase) in accounts receivable	(2,175)	(129)
Decrease (increase) in inventory	4,540	(6,512)
Increase (decrease) in accounts payable	(2,957)	2,957
Increase (decrease) in payroll tax payable	(294)	582
Increase (decrease) in accrued interest	(396)	(6,113)
Increase (decrease) in compensated absences	6,311	(457)
Increase (decrease) in accrued expense	(61)	(336)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u><u>\$ 202,000</u></u>	<u><u>\$ 218,959</u></u>

# Financial Statements



**RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS**  
Abilene, Kansas  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2018 and 2017

**Note 1: Summary of Significant Accounting Policies**

The Rural Water District No. 2, Dickinson County, Kansas (the District), was declared incorporated by the Board of Commissioners of Dickinson County, Kansas, on April 21, 1972 as a quasi-municipal Corporation under Kansas Statute K.S.A. 82a-612 et seq, for the purpose of providing a water supply system for the landowners within the areas of the District. The following is a summary of the District's significant accounting policies.

***Basis of Presentation and Accounting***

The water district is a governmental organization operated as a business (proprietary) type entity. The District's financial information is accounted for using the economic resources measurement focus and the accrual basis of accounting, in conformity with accounting principles generally accepted in the United States of America. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues are those that are generated from primary operations. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations. All other expenses are reported as non-operating expenses, such as reimbursements for joining the Water District.

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the District considers all bank deposit accounts, money market accounts and certificates of deposits classified as current assets to be cash and cash equivalents. Certificates of deposit with maturities of longer than three months can still be used by the District to meet current liabilities if they wish to pay any applicable penalties. At December 31, 2018 and 2017, cash and cash equivalents consisted of demand and money market accounts.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

***Capital Assets***

Capital assets purchased or built are capitalized at cost or estimated historical cost if actual cost is unavailable. The District's policy is to capitalize all assets with a cost of \$500 or more and a useful life exceeding one year. Depreciation is recorded based on the estimated useful life of each asset using the straight-line method. The estimated useful lives of assets are as follows: buildings – 40 years, water system infrastructure – 40 - 50 years, and equipment – 5 to 20 years.

***Inventory***

Inventory is stated at cost and consists of supplies to set water meters and items over \$100 when purchased.

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS  
Abilene, Kansas  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2018 and 2017

**Note 1: Summary of Significant Accounting Policies (Continued)**

***Non-Current Assets***

Non-current assets primarily include construction in process, capital assets, and reserve for bonds and loans. The amounts placed in the reserve often exceed the amount legally required to be restricted as they may include interest earned and other monies designated by the Board to be set aside to meet future obligations.

***Accounts Payable***

Accounts payable consist of invoices received from vendors for services or products received during the period but not yet paid.

***Taxes***

The District is exempt from federal and state income and property taxes.

**Note 2: Depository Security**

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

***Custodial Credit Risk - Deposits***

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to the District. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2018 and 2017.

***December 31, 2018***

At December 31, 2018, the District's carrying amount of deposits was \$489,570 and the bank balance was \$491,164. The bank balance was held by two banks. Of the bank balance, \$283,120 was covered by federal depository insurance and \$208,044 was collateralized with securities held by the pledging financial institution's agents in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

***December 31, 2017***

At December 31, 2017, the District's carrying amount of deposits was \$405,978 and the bank balance was \$408,289. The bank balance was held by two banks. Of the bank balance, \$282,988 was covered by federal depository insurance and \$125,301 was collateralized with securities held by the pledging financial institution's agents in the District's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the District, the pledging bank, and the independent third-party bank holding the pledged securities.

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS  
Abilene, Kansas

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

**Note 3: Capital Assets (Continued)**

Capital asset activity for the year ended December 31, 2018 was as follows:

	Balance at December 31, 2017	Additions	Retirements	Balance at December 31, 2018
<b>Capital Assets - Not Being Depreciated</b>				
Construction in progress	\$ 745	\$ -	\$ (745)	\$ -
<b>Capital Assets - Being Depreciated</b>				
Water system and equipment	\$ 4,439,261	\$ 12,675	\$ -	\$ 4,451,936
Abilene Treatment Plant	924,194	-	-	924,194
Navarre project	263,975	-	-	263,975
Westar project	56,170	-	-	56,170
Building	235,808	-	-	235,808
Machinery and equipment	79,330	-	-	79,330
Vehicles	94,079	-	-	94,079
Office equipment	24,442	-	-	24,442
<b>Total Depreciable Capital Assets</b>	<b>\$ 6,117,259</b>	<b>\$ 12,675</b>	<b>\$ -</b>	<b>\$ 6,129,934</b>
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 6,118,004</b>	<b>\$ 12,675</b>	<b>\$ (745)</b>	<b>\$ 6,129,934</b>
<b>Less: Accumulated Depreciation</b>				
Water system and equipment	\$ 2,368,741	\$ 110,387	\$ -	\$ 2,479,128
Abilene Treatment Plant	354,274	18,484	-	372,758
Navarre project	269,255	5,280	-	274,535
Westar project	57,293	1,123	-	58,416
Building	19,729	6,209	-	25,938
Machinery and equipment	5,739	11,525	-	17,264
Vehicles	35,709	18,905	-	54,614
Office equipment	8,356	2,516	-	10,872
<b>Total Less: Accumulated Depreciation</b>	<b>\$ 3,119,096</b>	<b>\$ 174,429</b>	<b>\$ -</b>	<b>\$ 3,293,525</b>
<b>OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION</b>	<b>\$ 2,998,163</b>	<b>\$ (161,754)</b>	<b>\$ -</b>	<b>\$ 2,836,409</b>
<b>Total Cost of Capital Assets</b>	<b>\$ 6,118,004</b>	<b>\$ 12,675</b>	<b>\$ (745)</b>	<b>\$ 6,129,934</b>
<b>Less: Accumulated depreciation</b>	<b>(3,119,096)</b>	<b>(174,429)</b>	<b>-</b>	<b>(3,293,525)</b>
<b>CAPITAL ASSETS - NET</b>	<b>\$ 2,998,908</b>	<b>\$ (161,754)</b>	<b>\$ (745)</b>	<b>\$ 2,836,409</b>

# Notes to Financial Statements

RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS

Abilene, Kansas

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

December 31, 2018 and 2017

**Note 3: Capital Assets (Continued)**

Capital asset activity for the year ended December 31, 2017 was as follows:

	Balance at December 31, 2016	Additions	Retirements	Balance at December 31, 2017
<b>Capital Assets - Not Being Depreciated</b>				
Construction in progress	\$ -	\$ 745	\$ -	\$ 745
<b>Capital Assets - Being Depreciated</b>				
Water system and equipment	\$ 4,415,936	\$ 25,758	\$ (2,433)	\$ 4,439,261
Abilene Treatment Plant	924,194	-	-	924,194
Navarre project	263,975	-	-	263,975
Westar project	56,170	-	-	56,170
Building	229,502	6,306	-	235,808
Machinery and equipment	10,590	68,740	-	79,330
Vehicles	77,421	40,840	(24,182)	94,079
Office equipment	24,703	576	(837)	24,442
<b>Total Depreciable Capital Assets</b>	<b>\$ 6,002,491</b>	<b>\$ 142,220</b>	<b>\$ (27,452)</b>	<b>\$ 6,117,259</b>
<b>TOTAL CAPITAL ASSETS</b>	<b>\$ 6,002,491</b>	<b>\$ 142,965</b>	<b>\$ (27,452)</b>	<b>\$ 6,118,004</b>
<b>Less: Accumulated Depreciation</b>				
Water system and equipment	\$ 2,260,831	\$ 110,344	\$ (2,434)	\$ 2,368,741
Abilene Treatment Plant	335,790	18,484	-	354,274
Navarre project	263,975	5,280	-	269,255
Westar project	56,170	1,123	-	57,293
Building	13,868	5,861	-	19,729
Machinery and equipment	1,862	3,877	-	5,739
Vehicles	48,087	11,804	(24,182)	35,709
Office equipment	6,701	2,491	(836)	8,356
<b>Total Less: Accumulated Depreciation</b>	<b>\$ 2,987,284</b>	<b>\$ 159,264</b>	<b>\$ (27,452)</b>	<b>\$ 3,119,096</b>
<b>OTHER CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION</b>	<b>\$ 3,015,207</b>	<b>\$ (17,044)</b>	<b>\$ -</b>	<b>\$ 2,998,163</b>
<b>Total Cost of Capital Assets</b>	<b>\$ 6,002,491</b>	<b>\$ 142,965</b>	<b>\$ (27,452)</b>	<b>\$ 6,118,004</b>
<b>Less: Accumulated depreciation</b>	<b>(2,987,284)</b>	<b>(159,264)</b>	<b>27,452</b>	<b>(3,119,096)</b>
<b>CAPITAL ASSETS - NET</b>	<b>\$ 3,015,207</b>	<b>\$ (16,299)</b>	<b>\$ -</b>	<b>\$ 2,998,908</b>

# Notes to Financial Statements

**RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS**  
Abilene, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2018 and 2017

**Note 4: Long-Term Debt**

	Beginning Balance	Issued	Retired	Ending Balance
State Water Supply Loan	\$ 954,881	\$ -	\$ 42,865	\$ 912,016
Water Revenue Bonds	340,000	-	15,000	325,000
Capital Lease	44,297	-	44,297	-
<b>Total</b>	<u>\$ 1,339,178</u>	<u>\$ -</u>	<u>\$ 102,162</u>	<u>\$ 1,237,016</u>

Long-term debt consists of the following at December 31, 2018 and 2017:

On June 15, 2012, the district issued \$420,000 in Kansas Rural Water Finance Authority Revenue Bonds, Series E 2012 with effective interest rates ranging from 1.00% to 4.2%. The new bond issue paid-off the outstanding note with the United States Department of Agriculture, Rural Development. Interest payments are due semi-annually on June 1 and December 1. Principal payments are due starting on December 1, 2012 and maturing in 2035.

	2018	2017
	\$ 325,000	\$ 340,000

On December 21, 2011, the district entered into a Loan Agreement with the Kansas Department of Health and Environment (KDHE) for a Kansas Public Water Supply Loan not to exceed \$1,100,742, for the purpose of furnishing a public water supply project. Funding of the loan was provided by the Environmental Protection Agency through a Capitalization Grant for Drinking Water State Revolving Fund. Interest on the loan is 2.43% per annum. The first amendment to the loan agreement was effective September 16, 2014 and established the future payment schedule of the loan. The second amendment to the loan agreement was effective September 2, 2015 and decreased the original loan amount by \$63,018 bringing the new loan balance to \$1,037,724 and established a revised future payment schedule. Interest payments are due semi-annually on February 1 and August 1 and principal payments are due starting on February 1, 2016 and maturing in 2035.

912,016	954,881
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On September 13, 2017, the District entered into a capital lease agreement with Foley Equipment for the purchase of a new hydraulic excavator. The lease agreement called for 5 payments of \$5,943 over 5 years with a final balloon payment of \$26,400 in year 6. The lease agreement called for interest of 3.35% to be incurred for the life of the lease. The payments of principal and interest are to be made on August 24th of each year. During 2018 the District purchased the excavator and paid off the lease.

-	44,297
<u>\$ 1,237,016</u>	<u>\$ 1,339,178</u>
(58,914)	(62,325)
<u>(7,495)</u>	<u>(7,951)</u>
<u>\$ 1,170,607</u>	<u>\$ 1,268,902</u>

**TOTAL LONG-TERM DEBT**

Less: Current portion of long-term debt  
Less: Unamortized bond discount

**NET LONG-TERM DEBT**

**RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS**  
Abilene, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2018 and 2017

**Note 4: Long-Term Debt (Continued)**

<b>Year Ended December 31, 2018</b>	<b>Principal</b>	<b>Interest</b>	<b>Service Fee</b>	<b>Total</b>
2019	\$ 58,914	\$ 29,431	\$ 3,154	\$ 91,499
2020	59,987	28,669	2,999	91,655
2021	61,087	27,428	2,841	91,356
2022	62,214	26,088	2,679	90,981
2023	63,368	24,725	2,512	90,605
2024 - 2028	340,166	101,314	9,922	451,402
2029 - 2033	393,562	56,129	5,112	454,803
2034 - 2038	197,718	7,751	562	206,031
<b>Total</b>	<b>\$ 1,237,016</b>	<b>\$ 301,535</b>	<b>\$ 29,781</b>	<b>\$ 1,568,332</b>

<b>Year Ended December 31, 2017</b>	<b>Principal</b>	<b>Interest</b>	<b>Service Fee</b>	<b>Total</b>
2018	\$ 62,325	\$ 32,569	\$ 3,305	\$ 98,199
2019	63,523	30,766	3,154	97,443
2020	64,750	29,849	2,999	97,598
2021	66,009	28,449	2,841	97,299
2022	87,758	26,944	2,679	117,381
2023 - 2027	333,957	109,054	10,816	453,827
2028 - 2032	386,556	65,925	6,121	458,602
2033 - 2036	274,300	14,940	1,171	290,411
<b>Total</b>	<b>\$ 1,339,178</b>	<b>\$ 338,496</b>	<b>\$ 33,086</b>	<b>\$ 1,710,760</b>

Total interest incurred and expensed in 2018 and 2017 was \$32,512 and \$26,530, respectively.

In 2012, the Series 2012 bonds were issued for \$420,000 which included a \$10,500 discount. This discount is amortized over the life of the bonds and recorded as a contra-liability. There was \$457 of bond amortization expense for the years ending December 31, 2018 and 2017, respectively.

**Note 5: Debt Service Ratio**

The bond issue covenants require the District to maintain a debt service ratio of at least 1.25.

Debt Service Ratio Calculation for the years ending December 31:

	<b>2018</b>	<b>2017</b>
Change in net position	\$ 17,832	\$ 71,239
Interest expense	32,512	26,530
Depreciation	174,429	159,265
Less: Capital contributions	(10,000)	(5,000)
<b>Total Revenue Available for Debt Service</b>	<b>\$ 214,773</b>	<b>\$ 252,034</b>
Debt service payments	\$ 88,555	\$ 95,580
Debt service ratio	2.43	2.64

**RURAL WATER DISTRICT NO. 2, DICKINSON COUNTY, KANSAS**  
Abilene, Kansas  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
December 31, 2018 and 2017

**Note 6: Retirement Plan**

The district provides annuities for its eligible full-time employees. The District contributes 3% of the employee's salary to their annuity. If employment is terminated, the annuity remains the property of the employee. In 2018 and 2017, the District contributed \$4,372 and \$4,429 respectively to the retirement plan. The annuities are with the Lord Abbott Company.

**Note 7: Litigation**

There were no legal actions involving the District as of December 31, 2018 and through the date of this report that require disclosure.

**Note 8: Compensated Absences Policy**

**Sick Leave:** The District provides sick leave for their eligible full-time employees at a rate of two days per month. These days may be carried forward to future years up to a maximum of 90 days. If the employment is terminated, the sick leave is lost. However, an employee with a 90-day accumulation can elect upon retirement to use sick leave to retire one month early with pay.

**Vacation Leave:** Upon completion of one year of continuous employment, a regular full-time employee earns vacation days as follows: After one year, five days are earned; after two years, ten days are earned; and, after three years, ten days plus one day for each year of employment after the third year. Employees cannot earn more than three weeks of vacation (15 days per year). A maximum of one-half of earned vacation can be carried over to the following calendar year. Employees are paid all earned vacation upon termination of employment. At December 31, 2018 and 2017, the value of accrued vacation was \$8,656 and \$2,345 respectively.

**Note 9: Risk Management**

Dickinson County Rural Water District No. 2 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To insure against risk of these types of losses, the District has purchased commercial insurance coverage from EMC Companies through Anderson Peck Agency Inc. in Topeka, Kansas. Settled claims resulting from these risks have not exceeded commercial coverage in the past three fiscal years.

**Note 10: Related Parties**

All the members of the Board of Directors and one employee are water district customers. Other than payment for water and approved salaries and wages, no material transactions occurred in 2018 or 2017 between the District and the Directors and employees. All were current for the year ended December 31, 2018 on their water payments.

**Note 11: Subsequent Events**

Management has evaluated subsequent events through May 14, 2019, which is the date the financial statements were available for issuance.